

PENINSULA SCHOOL DISTRICT No. 401
Pierce County, Washington
September 1, 1992 Through August 31, 1994

Schedule Of Federal Findings

1. Expenditures Charged To Federal Programs Should Comply With Federal Requirements

During our audit of the district's Chapter 1 grant (CFDA 84.010), we noted that the district charged employee payroll costs according to approved budget and personnel assignments, rather than actual time records. In addition, the assistant superintendent for special services and his secretary did not keep records to support their payroll and employee benefit costs charged to Chapter 1 which totaled \$7,681 and \$29,153 for fiscal year 1993-94 and fiscal year 1992-93, respectively.

U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, Section B.10.b states in part:

... Payroll and distribution of time. Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the . . . local . . . government. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort . . .

It further states:

. . . charges to a program must be actual time spent and not budget estimates.

During our audit the district brought to our attention an expenditure totaling \$11,768, in fiscal year 1991-92, for the purchase of IBM computer equipment. This computer equipment was purchased and charged to the Chapter 1 program but has never been used for the Chapter 1 program.

OMB Circular A-87, Attachment A, Section C.1 also states in part:

. . . A cost is allocable to a particular cost objective to the extent of benefits received by such objective . . .

The district does not have adequate policies and procedures in place over their accounting system to meet federal grant accounting requirements, therefore we question administrative salaries and employee benefit costs and the computer equipment

expenditure charged to the Chapter 1 program. Questioned costs for fiscal years 1993-94, 1992-93, and 1991-92 are \$29,153, \$7,681, and \$11,768, respectively.

The Chapter 1 administrator did not keep time and effort records for himself because he did not feel maintenance of such records would be cost effective. We recommend the district repay \$48,602 to the Superintendent of Public Instruction (SPI). We also recommend the district implement adequate policies and procedures over their accounting system to ensure the federal grant accounting requirements are being met. We further recommend the district consider using indirect cost rates authorized by SPI instead of claiming undocumented costs for reimbursement.

2. U.S. Department Of Agriculture National School Lunch Program (CFDA 10.553/.555) Applications Should Be Properly Verified

We audited the procedures used by district officials to verify student eligibility for free and reduced meals. The district is required to perform an annual verification of eligibility under the National School Lunch Program. The verification process requires a sample to be taken from the total population of applications, by application category, of students participating in the free and reduced school lunch program. In selecting the sample the district can choose one of two sampling methods. As discussed below, the district's procedures did not adequately document the verification process of student eligibility.

During our review of the verification files the district stated that it had used the random sampling method for the annual verification. The prior director of the Food Service Department was consulted at the district's request and explained she had actually used the focused sampling method for the annual verification. Upon further review of the files, we were unable to determine the populations of each application category in order to adequately verify the calculations of the sample size taken. The district has no evidence documenting the calculations performed in determining their sample size. The district has documented evidence of the total number of approved applications as of October 31, 1993, yet these numbers are not segregated by application category as required.

U.S. Department of Agriculture publication *Eligibility Guidance for School Meals Manual*, dated August 1991, page 43, requires the focused sampling method to verify the lessor of one percent or 1,000 of the total number of applications, by application category, both income and categorical. The sample should be selected from income application category with total household income within \$100 monthly (or \$1,200 annually) of the income eligibility guidelines for free and reduced price meals.

In addition to the above requirements, the district must select the lessor of .5 percent or 500 of the total number of applications that were approved based on categorical application category of eligibility. Direct certifications are not included in this application pool, but they are included in the 1 percent calculation noted above.

In order for the district to correctly perform the above calculations, they are required to track the total number of approved applications in each of the three application categories. Based on the information reviewed at the Food Service Department office, they do not track applications by category type (only by free or reduced).

We recommend the district establish procedures to ensure adequate documentation of the annual verification process which includes sample size determination and sample method used.